



62225

TOWARDS A NEW PARTNERSHIP FOR INCLUSIVE GROWTH IN THE MIDDLE EAST AND NORTH AFRICA

The World Bank, Middle East and North Africa Region¹

Introduction: Citizens are challenging authorities across the Middle East and North Africa (MENA), in countries with diverse socio-economic and institutional settings. From wealthy Bahrain to impoverished Yemen, from Tunisia with its sophisticated state institutions, to Egypt with its five thousand years of culture and civilization, the unifying refrain has been “Dignity, Respect and Freedom” and an end to the Arab exceptionalism which has denied rights enjoyed elsewhere. The Arab Spring in the spirit of a popular awakening has arrived

The Political Economy of the Arab Spring: The events are fundamentally political. However, the political nature of the change should not underestimate the role played by economic factors. Like Central and Eastern Europe in the 1980s, many regimes are under stress in part because they are economically unsustainable. Countries have been unable to sustain shared economic growth at levels necessary to generate the quantity and quality of jobs expected by a rapidly expanding labor force, notably young men and women.

Economic reforms had started in several countries during the last decade. But in the context of declining state legitimacy, low levels of political participation, nepotism perceptions of corruption and predation, and little accountability, reforms were too partial to take

¹ This Arab World Brief is derived from a collaborative effort of the World Bank Group and other Multi-Lateral Development Banks. The African Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank and the Islamic Development Bank were consulted in reviews. The longer paper also entitled “Toward a new Partnership for Inclusive Growth can be accessed on the front page of the World Bank portal at www.worldbank.org or by calling MNA K&L at 1 (202) 473 8177.

real hold or to transform sclerotic intuitions. Often they were perceived to increase inequality, and benefit the politically-connected elite.

The Way Forward: The public engagement emerging today in several MENA countries opens an opportunity for the people of the region to take their destiny in their own hands, formulate the strategies to achieve a path forward, and carry out the kind of reforms needed to overhaul the development paradigm and unlock the full creative potential of their countries. Greater government accountability and public participation will be essential elements for corrective measures to be applied when economic and social policies do not achieve the desired results. As government legitimacy deepens, there is also likely to be more effective regional cooperation in the Arab world, based on solidarity among peoples, and a desire for greater inclusiveness, both regionally and globally.

Challenges to the Arab Spring: The Arab Spring creates significant opportunities for the MENA Region and for the world, but there are also challenges and risks. The tenure and popular backing of transition governments will vary and decision-making in crisis situations may focus excessively on short-run palliative measures. Food and energy price shocks, and the global economic environment, could challenge the economic and political reform process. In countries undergoing a political transition – such as Tunisia and Egypt – there may be few organized groups and parties running on a clear economic development platform. In some countries, there are risks that governments will be driven by populist demands that compromise the country’s future, or that necessary reforms stall due to a popular backlash. Some governments may choose to crackdown on protests, further enhancing perceptions of exclusion and lack of voice. Competition and conflict between religious groups, and/or between ethnic majorities and minorities, may

increase, exacerbating perceptions of exclusion. Political risk perceptions may rise, deterring domestic and foreign private investment needed to create employment, and government budgets may shift away from investment towards consumption to cool popular discontent. The spreads on commercial financing are already rising with rating agencies downgrading countries. Timely external support – including aid from the world’s largest economies – for countries to define their development goals and address their peoples’ aspirations may fall short unless potential bilateral donors overcome fiscal and domestic political constraints.

International Support to the Arab Spring: MENA countries will be well served by international support that is driven by a shared vision around common development goals defined by the countries and with broad societal input. Governments will need to communicate their goals to citizens clearly, and to send signals about the direction and pace of policy reform.

Lessons from other political and economic transitions – in Latin America, Central and Eastern Europe and East Asia – suggest that transitions can take a long time, and certainly cannot be planned from the outset. Balancing attention to short-term needs with considerations of medium/long-term sustainability and growth will be a central challenge. Periodic re-evaluation and reorientation will be critical, as will reliable external partnerships.

The Role of Multilateral Development Banks (MDBs): MDBs can play a key role – as repositories of global and regional knowledge, sources of finance, and honest brokers. Each institution can contribute knowledge and financial resources, within its own mandate and available resources, in support of country-owned strategies. This paper focuses on the role of MDBs, but obviously this takes place within the broader context of donor support as well as private financial flows. The overall financing environment is challenging.

A crucial issue in the sustainability of the governance transition will be the availability of adequate public and private funding for short-

term financing needs, and for the medium-to-long term investments which will generate the bulk of much-needed jobs, particularly in the private sector. Innovative financing and risk-mitigating mechanisms to support private investment will be critical. This will be a high priority for MDBs and bilateral agencies. In the same vein the opening of external markets – for goods, services and labor – will be fundamental to the success or failure of the transition. These issues could help determine whether the Arab Spring declines into an Arab Winter or matures into an Arab Renaissance.

This Brief proposes a framework for support to MENA based on the following four building blocks, which are closely interconnected. Support to the region could address the following four development priorities under the overall approach that policy is as important as money.

Figure 1: A Framework for Support to MENA



The longer paper² outlines some of the key features of those building blocks, and proposes some of the MDB instruments intended to address them. These are summarized below:

- The Accountability building block focuses principally on transparency of government information, support to civil society for social accountability, information and communications technology, monitoring service delivery, corporate governance, and moving from privilege to competition.

²

- **Economic and Social Inclusion** covers primarily social protection and subsidies, closing the gap between leading and lagging regions, and economic and social participation of women.
- **Creating Jobs** includes short-term employment measures, enhancing educational quality and skills matching, labor market reform, and migration management.
- **Accelerating Economic Growth** mainly covers the relationship between growth and employment, the role of competition and the private sector, the importance of regional and global integration, opening markets, the role of Europe, infrastructure gaps in transport, water, energy and agriculture, environmental sustainability and climate change, and infrastructure financing.
- **Last but not least**, there is a strong emphasis on the increasing role of Regional Cooperation in the programs of MDBs and other partners, principally under the Arab World Initiative, revitalized by the Arab Spring³.

Contact Arab World Briefs:

Director, Regional Strategy and Programs

Jonathan Walters

Arab World Briefs Team: *Omer Karasapan, Roby Fields, and Hafed Al-Ghwel* –

Tel #: (202) 473 8177

The Arab World Briefs are intended to summarize lessons learned from the Knowledge and Learning activities of the World Bank Group and our partners. The Briefs do not necessarily reflect the views of the World Bank, its board or its member countries.

³ For more on the Arab World Initiative (AWI) see: <http://arabworld.worldbank.org/content/awi/en/home.html>